

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 18887 01 OF 02 231239Z

65

ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 EB-03 SP-02 TRSE-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 SSO-00 /034 W

----- 086472

O 231236Z NOV 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8013

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 18887

LIMDIS WITH DISTRIBUTION FOR S, D, E, C, P, EB, EUR,
S/P, TREASURY, NSC, FRB ONLY

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, NOVEMBER 23

REF: (A) STATE 267168; (B) LONDON 18795

1. CARTER AND BRITAIN. THE TIMES CARRIES A LONG FRED EMERY STORY FROM WASHINGTON ABOUT GOV. CARTER'S NOVEMBER 22 MEETINGS WITH PRESIDENT FORD AND OTHER ADMINISTRATION FIGURES. AFTER REPORTING CARTER'S INTEREST IN AN ECONOMIC SUMMIT, THE TIMES SAYS STIMULATING BOTH THE DOMESTIC AND WORLD ECONOMY WAS ON CARTER'S MIND, AND BRITAIN'S IMF APPLICATION AND DESIRE TO FUND STERLING BALANCES WERE DISCUSSED. AFTER MEETING WITH CARTER, "SIMON WAS ASKED IF CARTER...SUPPORTED THE IMF LOAN TO BRITAIN. HE ANSWERED BY WAY OF SAYING THAT MR. CARTER HAD EXPRESSED SATISFACTION WITH THE WAY THE IMF NEGOTIATIONS WITH BRITAIN WERE BEING CONDUCTED--THIS APPARENTLY BEING MR. SIMON'S REBUFF TO THE WASHINGTON POST'S CRITICISM TODAY OF AMERICAN BULLYING. AS FOR THE STERLING BALANCE LOAN REQUEST, MR. SIMON SAID ONLY THAT HE HAD INFORMED MR. CARTER OF THE BRITISH APPLICATION 'WITHOUT GOING INTO DETAILS.' IT IS UNDERSTOOD FROM NSC STAFF SOURCES THAT BRITAIN'S REQUEST HAS A VERY HIGH

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 18887 01 OF 02 231239Z

PRIORITY--BUT THAT THERE IS NO COMMITMENT WHATEVER TO

SETTLE THE STERLING BALANCE LOAN BEFORE MR. FORD LEAVES OFFICE. MR. SIMON ALSO DENIED THAT THERE WAS A FORMAL AMERICAN POSITION ON THE...IMF LOAN. BUT THE TREASURY SECRETARY MADE CLEAR THAT HE WOULD BE PARTICIPATING AS THE US BOARD MEMBER. THIS LOAN IS EXPECTED TO BE APPROVED IN MID-DECEMBER."

THE NOVEMBER 22 WASHINGTON POST EDITORIAL REFERRED TO IN THE TIMES IS CARRIED IN FULL IN TODAY'S INTERNATIONAL HERALD-TRIBUNE. IT IS SUMMARIZED IN THE DAILY MAIL. A WASHINGTON DISPATCH IN THE TELEGRAPH SAYS EDWARD KENNEDY ACCUSED THE FORD ADMINISTRATION OF SEEKING TO IMPOSE "UNREALISTIC AND SELF-DEFEATING REQUIREMENTS ON BRITAIN REGARDING THE IMF LOAN; "THE TELEGRAPH SAYS HE "VOICED WIDESPREAD FEARS IN WASHINGTON THAT THE US TREASURY...MAY TAKE ADVANTAGE OF THE TWILIGHT OF THE FORD ADMINISTRATION TO FORCE BRITAIN INTO SAVAGE CUTS IN PUBLIC SPENDING WHICH MIGHT BRING DOWN THE LABOUR GOVERNMENT."

2. THE GUARDIAN REPORTS THAT THE CABINET TODAY WILL MEET TO CONSIDER PUBLIC BORROWING CUTS UNDER "A VIRTUAL ULTIMATUM FROM THE IMF" TO REDUCE BORROWING OR GET LESS THAN THE 3.9 BILLION REQUESTED FROM THE IMF, OR NO LOAN AT ALL. "IT BECAME CLEAR LAST NIGHT THAT THE FUND'S REPRESENTATIVES REQUIRED A FIRM CABINET COMMITMENT BEFORE THEY WERE PREPARED TO ENDORSE A PAYMENT OF THE LOAN." GUARDIAN SAYS NON-TREASURY MINISTERS ARE STILL IN THE DARK ABOUT THE TERMS BEING OFFERED, BUT THEY ARE AWARE THAT THE IMF HAS MADE ITS OWN PUBLIC SECTOR BORROWING REQUIREMENT ESTIMATES, AND HAS "STATED A FIGURE BY WHICH THEY REQUIRE IT TO BE REDUCED." TIMING IS ALSO IMPORTANT. A "LARGE FIRST INSTALLMENT IS DESPERATELY NEEDED TO COVER OUTSTANDING DEBTS WHICH WOULD REMAIN UNPAID IF THE LOAN WERE TO BE SPREAD OVER A LENGTHY PERIOD."

3. ENVIRONMENT SECRETARY PETER SHORE ANNOUNCED YESTERDAY THAT CENTRAL GOVERNMENT GRANTS TO LOCAL AUTHORITIES IN THE 1977-78 FISCAL YEAR WILL BE BASED ON AN ASSUMED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 18887 01 OF 02 231239Z

1.6 PERCENT REDUCTION IN REAL TERMS IN LOCAL CURRENT EXPENDITURE FROM THIS YEAR'S SPENDING LEVEL. FURTHERMORE, THE CENTRAL GOVERNMENT GRANT WILL COVER LESS OF LOCAL SPENDING (6L PERCENT IN ENGLAND AND WALES, VS 65.5 PERCENT THIS YEAR). A CASH LIMIT WILL BE IMPOSED ON THE GRANT (AS WAS THE CASE THIS YEAR), BASED ON THE ASSUMPTION THAT LOCAL AUTHORITY COSTS WILL RISE ONLY 10 PERCENT. THE TOTAL GRANT WILL AMOUNT TO 7.147

BILLION POUNDS IN NOVEMBER 1976 PRICES. IF LOCAL
AUTHORITIES STICK TO THE GOVERNMENT ASSUMPTIONS, THEY

ARMSTRONG

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 18887 02 OF 02 231240Z

65

ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 EB-03 SP-02 TRSE-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 SSO-00 /034 W

----- 086498

O 231236Z NOV 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8014

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 18887

LIMDIS

WILL HAVE TO RAISE LOCAL PROPERTY TAXES BY 15 PERCENT
ON THE AVERAGE; IF THEY CHOOSE TO SPEND MORE, THEY WILL
EVENTUALLY HAVE TO PAY THE POLITICAL PRICE OF RAISING
LOCAL TAXES EVEN MORE. ON THE OTHER HAND, STICKING TO
SHORE'S GUIDELINES MEANS A 1 PERCENT (20 - 25,000 JOBS)
REDUCTION IN LOCAL AUTHORITY EMPLOYMENT.

4. FOREIGN EXCHANGE AND FINANCE. INQUIET TRADING OF
MODEST VOLUME THE POUND LOST 3.4 CENTS ON MONDAY TO
CLOSE AT \$1.6460. THE DOLLAR ALSO LOST GROUND DURING
THE DAY SO THE POUND'S TRADE-WEIGHTED DEPRECIATION
SINCE THE WASHINGTON CURRENCY AGREEMENT WIDENED SUB-
STANTIALLY TO 45.7 PERCENT FROM FRIDAY'S 44.1 CLOSE.
THERE WAS NO SINGLE GEOGRAPHICAL OR FUNCTIONAL SOURCE
OF THE SELLING, NOR WERE THERE ANY DEVELOPMENTS THAT THE
MARKET FELT COULD HAVE TRIGGERED THE DECLINE. FORWARD
RATES ON STERLING DECLINED EVEN MORE THAN THE SPOT, THE
DISCOUNT ON THREE MONTH FORWARD STERLING WIDENING TO
4.6 CENTS AT MONDAY'S CLOSE FROM 4.12 ON FRIDAY,
IMPLYING A 10.72 PERCENT ANNUALIZED COST OF FORWARD
COVER. IN NEW YORK AFTER LONDON TRADING CLOSED, THE

POUND FELL FURTHER TO \$1.6370. IN EARLY TUESDAY
TRADING THE MARKET WAS NERVOUS AS A RATE NEAR \$1.64 WAS
ERRATICALLY MAINTAINED.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 18887 02 OF 02 231240Z

THERE CONTINUED TO BE A SEVERE SHORTAGE OF DAY-TO-
DAY CREDIT IN THE LONDON MONEY MARKET ON MONDAY, AS THE
AUTHORITIES BOUGHT A LARGE NUMBER OF TREASURY AND LOCAL
AUTHORITY BILLS, AND WERE SAID TO HAVE LENT AN EX-
CEPTIONALLY LARGE AMOUNT OVERNIGHT TO EIGHT OR NINE
DISCOUNT HOUSES. SHORT TERM RATES CONTINUED TO RISE AS
ONE MONTH STERLING CD'S YIELDED 15-1/8 PERCENT, THE
HIGHEST YIELD SINCE NOVEMBER 1, WHILE LONGER MATURITIES
SHOWED LOWER RATES, THE YIELD ON SIX MONTH CD'S STAND-
ING AT 13-3/4 PERCENT, ONE OF THE LOWEST RATES IN OVER
A MONTH.

GILTS TRADED QUIETLY ON MONDAY, AS EARLY INCREASES
WERE ERASED BY AFTERNOON FALLS IN SYMPATHY WITH STERLING
MOVEMENTS. THE LONG TAP STOCK SHOULD BE NEARLY EX-
HAUSTED BUT WILL ONLY BECOME SO IN A STRONG DAY. EARLY
TRADING ON TUESDAY SAW VERY LITTLE MOVEMENT IN GILT
PRICES, AS SHORT PRICES CONTINUED STEADY AT MONDAY'S
CLOSING LEVELS, WHILE SOME LONGS ROSE BY 1/8.

EQUITY PRICES, STILL REACTING TO LAST WEEK'S
MOVES TO RESTRICT THE GROWTH OF CREDIT, AND FACED WITH
THE FALL IN STERLING, FELL SHARPLY ON MONDAY. THE
FINANCIAL TIMES (FT) INDEX OF 30 INDUSTRIALS FELL FROM
307.2 TO 293.2. PRICES RECOVERED SOME OF THEIR MONDAY
LOSSES IN EARLY TUESDAY TRADING, AS THE FT INDEX STOOD
AT 297.7 AT 11:30.

ARMSTRONG

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, POLITICAL SITUATION, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 NOV 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON18887
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760435-1064
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761123/aaaaatfs.tel
Line Count: 208
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: 76 STATE 267168, 76 LONDON 18795
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2004 by CunninFX>; APPROVED <13 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SITUATION REPORT, NOVEMBER 23
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006